[redacted] 25X1

14 July 1986

TALKING POINTS FOR THE DDI

25X1

South Africa: Impact of Existing Economic Sanctions [redacted]

South Africa expects and is now bracing for harsh new economic sanctions. Pretoria probably takes some comfort from the fact that it has been preparing for years for such eventualities and that past restrictions have had only a modest impact on the economy.

Effect of Current Sanctions

Pretoria appears to have adapted with relatively little economic difficulty to US bans on the importation of gold coins, bans on computer sales to the South African government, and restrictions on new direct investment and bank loans enacted last year.

-- The ban on the import of Krugerrands by the US and several other Western countries has forced South Africa to discontinue their production, costing them between $35 and $50 million in lost revenue.

-- The recession in South Africa has cut domestic investment thereby limiting the impact of the ban on new direct investment.
We expect that South Africa's economy will grow by only 1-2 percent this year.
25X1 [redacted]

-- The debt crisis of late 1985 and the subsequent repayment freeze effectively stopped new bank lending, negating the effect of the US imposed ban.

-- Ample precedents exist from the arms and oil embargoes to suggest that South Africa will find ways to secure needed computers and electronics.

South Africa has endured a UN arms embargo that began as a voluntary embargo in 1963 and was made mandatory in 1977. An oil embargo was imposed by OPEC in 1973 and made mandatory by the UN in 1977.

-- In the wake of the arms embargo Pretoria has developed a resilient, thriving arms industry which meets most domestic defense and security requirements, with such exceptions as advanced aircraft, large naval vessels, and certain high technology electronics.

Foreign Investment in South Africa

Foreign investment in South Africa totaled some $40 billion in 1985,

[redacted]

[redacted] 25X1

according to South African government statistics [redacted] These liabilities included direct investment, foreign-owned shares on the Johannesburg Stock Exchange, other types of equity investment and overseas debt. 25X1

-- The US owns some $13 billion or about 32 percent of the total. This includes nearly $3 billion in short-term debt frozen by last year's debt repayment standstill. [redacted] 25X1

-- Other major foreign investors include:

-- The UK with some $15 billion or 38 percent;
-- West Germany with about $2.5 billion or some 6 percent;
-- France with almost $2 billion or 5 percent;
-- Other European countries and Japan with $8 billion or roughly 20 percent of the total.

Strategic Stockpiles [redacted] 25X1

We have little data on the size, composition, or quality of stockpiles of specific non-oil items given that the South Africans consider such data state secrets. A private South African firm, however, estimated that the government has on hand about one year's consumption of spare parts and other items considered essential to industry and commerce. [redacted] 25X1 25X1

-- We estimate that between 1960 and 1979 Pretoria spent over $2 billion building and maintaining nonmilitary strategic stockpiles.

-- Despite a ban on crude oil sales, South Africa has accumulated a strategic oil reserve of about 200 million barrels, a supply adequate to cover more than 3 years at present rates of consumption and considerably longer if rationed.

-- Other items we know are presently being stockpiled include:

-- Synthetic rubber and tires
-- Urea (used for producing fertilizer)
-- Cabron black
-- Soda ash
-- Ferro-titanium

[redacted] 25X1